
Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair
SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
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Agenda
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I. Child Care

- A. Background. Under current law, the state makes subsidized child care services available to: (1) families on public assistance and participating in work or job readiness programs; (2) families transitioning off public assistance programs; and (3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the “stage” of public assistance or transition the family is in. Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education.

Families receiving Stage 2 child care services are either receiving a cash public assistance payment (and are deemed “stabilized”) or are in a two-year transitional period after leaving cash assistance; child care for this population is an entitlement under current law. The State allows counties flexibility in determining whether a CalWORKs family has been “stabilized” for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

Families receiving Stage 3 child care services have exhausted their two-year Stage 2 entitlement. The availability of Stage 3 care is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act. Subsidized child care is also available on a limited basis for families with exceptional financial need (the “working poor”). Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists, while consolidated, still grant priority to the former CalWORKs recipients.

Child Care is provided through either licensed child care centers or the Alternative Payment Program.

- *Child Care Centers* receive funding from the state, which pays for a fixed number of child care “slots.” Centers provide an educational program component that is developmentally, culturally, and linguistically appropriate for the children served. Centers also provide nutrition education, parent education, staff development, and referrals for health and social services programs. In many areas of the State, there are no available “slots” in licensed Child Care Centers or Family Day Care Centers and families are limited to the use of license-exempt care.
- *Alternative Payment Program* provides child care through means-tested vouchers, which provide funding for a specific child to obtain care in a licensed child care center, licensed family day care, or license-exempt care. With a voucher, the family has the choice of which type of care to utilize.

Staff notes that, in recent years, the Legislature has approved a variety of Administration-driven proposals designed to “ration” the limited amount of state subsidized child care

services, including: (1) eliminating subsidized child care services for 13-year old children; (2) eliminating subsidized child care services for families whose income exceeded 75 percent of the State Median Income (maximum income level under law) and who were originally “grandfathered” into law; (3) reducing the maximum rate paid to Alternative Payment providers for administration and support services -- from 20 to 19 percent; (4) reducing the reimbursement rate for providers from 93 percent of the Regional Market Rate to 85 percent; and (5) limiting the availability of child care services to 11- and 12-year olds by tacitly shifting this age group to After School Programs. In addition, the Legislature approved, and the Administration enacted, Centralized Eligibility Lists in order to consolidate the separate waiting lists formerly housed by individual providers into a central location.

As part of the 2006-07 Budget, the Legislature adopted a series of actions aimed at increasing support for child care programs. Specifically, the Legislature: (1) redirected funding from enrollment growth for Title V Centers and instead used those dollars to increase the Standard Reimbursement Rate for center-based programs; (the intent was to address long-standing issues surrounding the inability of centers to continuing operating at the reimbursement rate that was previously being provided); (2) "Unfroze" the child care income eligibility ceilings and adjusted the ceiling to reflect 75 percent of the current (2006-07) State Median Income and appropriated an additional \$67 million to reflect increased caseload that may result due to the increased income eligibility; (3) Adjusted the family fee schedule to add new "steps" (accounting for the higher income limits) and retained the level at which fees begin to be assessed at 40 percent of SMI; and (4) Implemented compromise, county-based Regional Market Rates.

- B. Governor's Proposal. The Governor's Budget provides the California Department of Education with approximately \$3.2 billion to support approximately 911,185 children in the state's subsidized child care, After School, and Preschool systems. The proposed amount represents a decrease of approximately \$22 million from current-level expenditures. Of the amount proposed (for all child development programs), 26 percent of the funding will be spent on current and former CalWORKS recipients.

Also included in the Governor's Budget is \$76.7 million to fund a 4.04 percent Cost-of-Living-Adjustment (COLA) and growth in non-CalWORKs child development programs. Growth in non-CalWORKs child development programs (including Center-based Care and Preschool) is based on the growth rate in the 0- to 4-year old population. Growth adjustments in the CalWORKs child care programs are based on actual CalWORKs caseload adjustments, which are coordinated between the Department of Social Services (DSS) and CDE.

Following are the two child care proposals contained in the Governor's Budget:

1. Funding for CalWORKs Stage 2 Child Care Services.

Included in the Governor's 2007-08 proposal is a shift in the traditional *mix* of funding for Stage 2 Child Care services. While long-administered by CDE, Stage 2 Child Care has traditionally been funded with federal TANF and Child Care Development Block Grant monies as well as Proposition 98 dollars. The chart on the following page illustrates the mix of funding sources in the Stage 2 Child Care program over time.

<i>\$'s in millions</i>	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (proposed)
Proposition 98	\$103.0	\$55.5	\$107.6	\$18.4	\$69.1	\$404.7
Federal TANF	351.7	535.0	315.2	407.7	369.1	42.7
Federal Child Care Develop. Block Grant Funds (CCDF)	128.5	6.5	2.1	8.0	13.7	--
Total	538.2	597.0	424.9	434.1	451.9	447.4

Staff notes that while this fund shift has been described by some as "moving" Stage 2 Child Care "into" Proposition 98, the State has always paid a portion of Stage 2 child care costs from Proposition 98 and the Administration's proposal appears to reconfigure the current funding sources.

Staff recommends that action on this item be held open pending updated federal and state revenues, which will be available at the May Revision.

2. Freezing of State Median Income. The Governor proposes Budget Bill Language which would freeze the income eligibility levels for families participating in the state's child care programs.

Language to this effect was also proposed as part of last year's budget proposal, at which point the Administration called for a working group to develop a methodology to link any future changes in eligibility to the development of a new family fee schedule. The language further called for the working group to: consider the use of alternative indexes for future income eligibility adjustments; examine the standard reimbursement rate; and review child care contracts to maximize expenditures.

As part of the current year budget process, Legislative staff, working with representatives from the Administration, negotiated an increase in the income eligibility levels for the current year and developed a new family fee schedule linking these new income levels to the family fee schedule. Further, staff worked to coordinate these actions with revised standard reimbursement rates. All of the above-noted changes were approved by the Legislature and the Governor and included in the current year Budget Act.

However, the Administration did not view these changes as being ongoing, and failed to include additional funding in its January proposal to continue adjusting income eligibility thresholds to keep pace with the changing State Median Income.

Staff recommends that this issue be held open pending the May Revision.

- C. Current Year Implementation. As required by federal law, and consistent with actions taken in the current year Budget Act, the maximum amount that child care providers may be paid was altered (generally increased) in the current year based on recent regional child care market rate data. As a result of these changes, the average cost of child care is increasing statewide, and the appropriations provided in the 2006-07 Budget Act for all stages of CalWORKs child care will likely prove insufficient.

Stage 1 and Stage 2 child care services, which are entitlements under state law, are eligible to access the child care "reserve" which is an approximately \$50 million pot of money which was "held back" from the CalWORKs child care appropriation in order to account for the volatility of caseload movements between Stage 1 and Stage 2 Child care services. In this case, the dollars can be used to account for volatility in the reimbursement rates and cover the projected shortfall in the programs. CDE estimates the shortfalls in Stage 1 (administered by DSS) and Stage 2 to be in the range of \$20-\$30 million.

Stage 3 child care services, unlike Stages 1 and 2 are not an entitlement and shortfalls in that program will not automatically be covered by the child care reserve, General Fund or TANF. The amount needed for Stage 3 remains unclear, and coupled with caseload adjustments at the May Revision, it is unclear at this point in time, what the total needs of the program will be. However, Staff notes that additional resources could be needed for 2006-07 to ensure that children receiving services under this program will remain enrolled.

No action is needed on this item at this time, although staff recommends this issue be revised at the May Revision.

- D. Other Child Care Issues. In addition to the above-noted elements contained in the Governor's Budget, the Office of the Legislative Analyst (LAO) and Staff have raised several additional issues which were not addressed in the Governor's proposal.

1. Reexamine Child Care Facilities Revolving Fund (CCFRF) Program.

Background. CDE currently offers two programs intended to help child care and preschool providers purchase and maintain facilities.

The CCFRF program, which was established by statute in 1997, provides no-interest loans of up to \$150,000 to help child care providers purchase portable facilities and to make major renovations and repairs to existing facilities, all in order to increase child care capacity. Providers have three years to use the loan, followed by a ten year period of repayment. Loan repayments are made back to the revolving fund, thus replenishing the fund.

Since the fund's inception, the state has awarded 590 CCFRF contracts – all for the purchase of portable facilities. While the portables have indeed increased capacity (by approximately 20,000 program slots), the major renovation and repair component of the program has yet to be implemented, a concern raised by the LAO.

CDE also administers the Facilities Renovation and Repair (FRR) program, which awards grants up to \$1,000 to existing providers for minor facility repairs of existing

buildings as needed to meet health and safety requirements or to comply with requirements set forth by the Americans with Disabilities Act. Unlike the above-noted CCFRF, the FRR is simply intended to maintain existing child care capacity rather than increasing capacity. Funds for this program are appropriated annually in the Budget Act; historically, all funds appropriated are expended each year.

The LAO recommends that CDE explain to the committee why the major renovation and repair portion of the CCFRF program has yet to be implemented and offer any suggestion it may have to expedite implementation. Further, CDE should discuss the pros and cons of shifting administration for the program back to its School Facilities Division.

2. Statewide Child Care Quality Plan.

Background. California currently spends roughly \$100 million each year for more than 40 child care "quality improvement" programs. Quality improvement activities include: (1) offering health and safety training for providers; (2) conducting provider licensing inspections; (3) developing learning standards and instructional materials; and (4) providing programming (broadcast over public television stations) aimed at better educating child care providers. As a condition of receiving federal Child Care Development Block Grant Funds (CCDF), California is required to spend no less than four percent of its aggregate child care spending on activities designed to improve the quality and availability of child care, and the expenditures noted above, are designed to meet this requirement. Unfortunately, as noted by the LAO, expenditures occur amongst multiple agencies and are not coordinated, nor do they occur in concert with a common definition of "quality" or in support of a unified statewide plan.

To meet this end, the LAO recommends that the Legislature convene a working group of relevant stakeholders and direct it to develop a strategic child care and development quality plan by March 1, 2008.

Staff recommends that this issue be held open, but notes that the LAO's recommendation may be better suited to either legislation or Supplemental Reporting Language than to the Budget Act itself.

3. Federal Child Care and Development Funds (CCDF) State Expenditure Plan.

Background. Federal law requires the state to submit a Statewide Plan outlining how California intends to spend federal CCDF dollars. CDE submits such a plan every other year. The plan's preparation and review process is outlined in Budget Bill language; however, the language contained in the Budget Bill details a process that applies only to the portion of the State Plan that addresses child care "quality". Child Care advocates have suggested changes to the language which would broaden the scope to include a public hearing process on the entire statewide CCDF expenditure plan, and specifying the length of the public hearing process to better allow public input on the development of the state's expenditure plan.

The LAO did not examine this issue in its analysis of the Budget Bill; however, staff recommends that the issue be held open while staff, the LAO, DOF, and CDE work on language to address concerns related to the public hearing process surrounding the state's CCDF expenditure plan.

II. State Preschool Program

A. Background.

The California Department of Education (CDE) administers state preschool programs for 3- to 5-year old children from low-income families. These pre-kindergarten educational programs focus on early childhood education and enrichment and generally last for three hours. In the current year, the preschool services were dramatically expanded (by \$50 million) with funds earmarked in the Budget Act, but appropriated by Chapter 211, Statutes of 2006. The expansion added approximately 12,000 slots, bringing total participation to over 110,000 children. The LAO finds that the demand for state supported preschool far outweighs the capacity -- approximately 34,000 children who meet eligibility requirements for state preschool are on CDE waiting lists.

State preschool providers contract directly with CDE and are reimbursed using a Standard Reimbursement Rate (SRR) which is established in the annual Budget Act (the Governor proposed this rate be \$21.12 per child per day for 2007-08, an increase of \$0.82 per child per day or 4.04 percent – consistent with the statutory COLA).

B. Current Year Implementation.

The current year Budget Act appropriated \$50 million in preschool expansion while Chapter 211, Statutes of 2006, provided the statutory framework for the expenditure of these funds. Rather than simply expanding the existing state preschool program, Chapter 211 sought to appropriate the funds in a more targeted manner, by establishing the new *Pre-Kindergarten and Family Literacy Program* (PKFL). This new PKFL program expanded state preschool, added a "wrap around" care component, which seeks to bridge preschool programs with child care programs in order to provide a full day's worth of care, and included a variety of additional criteria not otherwise included in the existing State Preschool program. The chart on the next page (provided by the Legislative Analyst) outlines the differences between the existing State Preschool program and the new PKFL program.

Standard System	Chapter 211 (PKFL) System
<i>Eligibility</i>	
<p>Age: Three and four year olds. 10 percent of participants may be older.</p> <p>Participation: Two-year maximum.</p> <p>Income: Families must earn less than 75 percent of State Median Income (SMI). 10 percent of participants may earn more after initial enrollment.</p> <p>Location: Statewide.</p>	<p>Age: One year prior to enrollment in Kindergarten.</p> <p>Participation: One-year maximum.</p> <p>Income: Families must earn less than 75 percent of SMI. 20 percent of participants may earn more at initial enrollment.</p> <p>Location: Provider must be located in the enrollment area of an elementary school ranked in bottom three deciles of the Academic Performance Index.</p>
<i>Program Details</i>	
<p>Preschool Minimum Day/Year: 3 hours per day and 175 days per year.</p> <p>Wrap Around Minimum Day/Year: 6.5 hours per day. Number of days per year depends on contract.</p> <p>Preschool Curriculum: Includes education, nutrition, health and social services.</p> <p>Wrap Around Standards: Must comply with all Title V child care requirements.</p>	<p>Preschool Minimum Day/Year: "Part-day" not defined. 175-180 days per year.</p> <p>Wrap Around Minimum Day/Year: Minimum hours per day not specifically defined. Minimum of 246 days per year.</p> <p>Preschool Curriculum: Same as state preschool with added requirement of parental involvement and education.</p> <p>Wrap Around Standards: Same as standard system.</p>
<i>Funding (Proposed 2007-08 Rates)</i>	
<p>Preschool Rate: \$21.12 per day per child.</p> <p>Wrap Around Rate: \$13.10 per day per child.</p>	<p>Preschool Rate: Same per child rates as standard. \$2,500 per classroom per year.</p> <p>Wrap Around Rate: Same as standard system.</p>

According to CDE, interest in the new PKFL program has been widespread. CDE received over 185 applications for the program, and demand exceeded the available supply of grants by \$7.6 million. With the new funds, Preschool programs will be developed on 439 new sites across the state. Given the timing of the implementing legislation (Chapter 211 went into effect on January 1, 2007), CDE will be unable to have contracts with grantees in place prior to April of 2007. As a result, approximately \$37.5 million of the original \$50 million appropriation will remain unexpended in the current year. In addition, at least \$4 million of the \$5 million appropriated for "wrap around" care will also remain unexpended in the current year due to limitations placed on its usage.

Staff notes that the committee will need to consider at the May Revision if it wishes to "score" the current year savings noted above to the benefit of the Proposition 98 guarantee (thereby reducing the state's minimum K-14 obligation in 2006-07), or whether the unused funds should be used for other K-12 or Preschool-related one-time purposes.

Hold issue open pending the May Revision.

C. Governor's Budget.

The Governor generally proposes to maintain the State Preschool Program at existing levels, with additional funding provided for growth (which will add approximately 2,550 new children into the program) and COLA (which will increase the Standard Reimbursement Rate by \$0.82 per child per day).

In addition to the above baseline changes, the Governor proposes to make permanent \$5 million in funds provided via Chapter 211 for "wrap around" care. Total funding under the Governor's proposal would exceed \$418 million.

1. "Wrap Around" Care Proposal.

As discussed above, the Governor's Budget includes \$5 million (in ongoing funds) to bridge preschool services with state-subsidized child care services - two systems which have struggled to successfully link. Anecdotally, a major barrier for low-income family participation in state preschool has been the part-day nature of the program when families are in need of full-day care. As a result, Chapter 211, Statutes of 2006 sought to address this issue by providing funding specifically for this purpose. However, the \$5 million for wrap around care (both in the current year and proposed by the Governor for 2007-08) is linked directly with the PKFL program (as funded by the \$50 million in expansion funds). Given that both the PKFL program has a different set of participation criteria from the original preschool program, and that CDE has indicated that, moving forward, it will be unable to spend approximately half of the \$5 million of wrap around monies because of its linkage to the PKFL program, both staff and the LAO recommend broadening the use of the funds.

Specifically, the LAO recommends that the Legislature approve the \$5 million in ongoing funds provided for wrap around care, but that the funds instead be designated for the much larger standard wrap around child care program rather than limiting it to the \$50 million PKFL program.

Staff notes that, under the LAO's recommendation, PKFL providers would still be able to access the funds, but the dollars would be used more effectively and efficiently by allowing all families and providers access.

Staff recommends that this issue be held open pending the May Revision.

III. After School Programs (Information Only)

- A. Background. The state makes Before and After School Programs available to children statewide with funding provided by both the state General Fund (through the After School Education and Safety Program) and the federal government (via the 21st Century Community Learning Centers Program).

In 2002, the voters approved Proposition 49 to increase the amount of state support available to Before and After School Programs. After several years of failing to meet the state General Fund revenue "trigger" contained in the initiative, the provisions of Proposition 49 went into effect in the 2006-07 fiscal year. This had the effect of requiring the state to quadruple (in a single year) the amount of funding it expends on state-funded After School Programs.

In the current year, the state is spending \$547.4 million General Fund to support After School Programs and the federal government is providing the state with \$162.6 million for a similar purpose. As a condition of Proposition 49, the State funds are continuously appropriated and are not appropriated in the annual Budget Act. Federal funds (for the 21st Century Learning Centers Program) are appropriated annually in the Budget Act.

The Governor's 2007-08 budget proposal holds constant funding for the State's After School program at \$547.4 million, while federal support for the 21st Century Community Learning Centers Program is slated to decrease by \$33.6 million (to \$129 million), due primarily to the absence of prior-year carry over funds which had been previously been available to supplement the program.

B. Current Year Implementation. CDE estimates that in the current year, all of the \$447 million of Proposition 49 funds will be fully expended. Like the expanded Preschool program, the After School program was also oversubscribed, with applications exceeding resources by approximately \$200 million. According to CDE, 1,900 applicants received rejection notices, although some of those have since received grants, on appeal (mainly because they were new schools which were not initially able to provide free/reduced price meal data on their student populations to meet the needs-based threshold for program participation).

No action needed.